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**DEVELOPMENTS IN
ACCOUNTING ON THE
INTERNATIONAL LEVEL**

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San Francisco Chapter,
National Association of
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Tonight I would like to chat with you about some rather interesting developments on the international accounting scene. In so doing, I recognize that the subject may not be of high priority interest to all of you—particularly to those of you who are associated with organizations that are not heavily involved in international activities. Yet, it is a subject of vital interest to many of us and one that should have some—and growing—interest for practically all of us.

We live in what has increasingly come to be an international society and an international economy. The modern industrial corporation has become an institution that transcends international boundaries. We have seen the steady advance of American investment into practically all parts of the world. We have also noted, and particularly in recent years, a rising rate of investment by European and other foreign investors outside of their own countries, not least of all in the United States.

In fact, this rapidly increasing involvement of foreign corporations and countries in business enterprises in the United States is one of the most interesting and more significant economic phenomena of today. Reflect, if you will, on these happenings, just as a sample of what is going on:

- A British tobacco company buys Gimbels, a major retailing operation.
- An agency of the Canadian government buys a 20 percent interest in Texas Gulf Sulfur, a major natural resource company.
- A Japanese trading company enters into a joint venture to take over the aluminum operations of American Metals Climax (Amax).
- The National Iranian Oil Company enters into a similar arrangement involving certain of the refining and marketing operations of Ashland Oil Company.

These are but a few examples of this phenomenon; hardly a day goes by that the financial press does not report one or more additional ones.

It is hard to zero in on just what this development means to us—that is, us in the United States; whether its overall effect is good, bad or indifferent. A Congressional committee is beginning an investigation in an effort to make such a determination. But in any event, the important thing to recognize at this moment is that this development is here and that it is accelerating.

The outlines of a truly world economy are taking shape much more rapidly than most observers would have anticipated, even a few years ago. Concurrently there has come about an interflow of capital at such a rate that our major capital markets are now becoming international. For example, a growing number of U.S. companies are listing their securities for trading on the Tokyo Stock Exchange.

All this, of course, has great relevance to accounting—for accounting is the language of business and, if it is to serve the needs of international business, it must become more nearly and more clearly an international language.

Yet, despite these economic developments, historically there has not been an organization, or any kind of entity, for bringing the accounting profession or accountants together internationally on any broad and continuing basis. There has been, of course, from the beginning, communication between individual accountants, and between firms, and between accounting organizations, on a one-to-one basis. Also, there have been and there are regional organizations of accountants such as the UEC in Europe, the Inter-American Accounting Conference, and the Conference of Asian and Pacific Accountants. These have varied considerably in terms of the scope of their activity, but, at best, they have been restricted geographically to a region rather than being global.

THE TENTH INTERNATIONAL CONGRESS OF ACCOUNTANTS

There were two developments in connection with the Tenth International Congress of Accountants at Sydney in October 1972 that could go a long way toward the realization of such an entity or entities. One led to the formation of the International Accounting Standards Committee, the other to the formation of the International Coordination Committee for the Accountancy Profession.

The International Congress of Accountants at Sydney was excellent in all respects. The technical presentations were generally quite good, and the workshops were stimulating and well attended. The Australians did a superb job with the arrangements and were most gracious hosts.

In addition to being a pleasant and stimulating experience, the Congress was most constructive in giving impetus to these two very significant steps toward international accounting cooperation and harmonization.

As Sir Ronald Irish, the Chairman of the Congress, said in reporting on the Congress, its "outstanding result" was the expression of a "universal desire to achieve a greater uniformity in standards and principles of accounting and auditing." Another speaker (from the Institute of Chartered Accountants in England and Wales) emphasized the same point when he said that the dominant feeling emerging from the Congress was "support for urgent action to formulate international standards and to secure their world-wide acceptance and implementation."

So we came away from the Congress with a greater sense of urgency, but, more significantly, two more specific and concrete things happened. First, it was decided that there had to be a formal organization that could carry on the objectives of the international congresses more forcefully than had been done in the past. Accordingly, what was known as the international "Working Party," whose major function had been the planning of the congresses, which are held every five years, was reconstituted as the International Coordination Committee for the Accountancy Profession (commonly referred to as ICCAP) and with a much broader charge. The first meeting of this new body was held in Düsseldorf in April 1973 and its second meeting in Mexico City in October. Quite a bit has been accomplished already, or at least begun, as I will relate in a few moments.

The other specific thing that happened in Sydney was that the countries that had sponsored the Accountants International Study Group—the United States, United Kingdom and Canada—got together in a side meeting to talk about how best to carry on the work they had started and which has resulted in several publications. These publications have covered such subjects as inventories, auditors' reporting standards, corporate income taxes, use of other auditors' reports and reporting by diversified companies. (Others are in process, dealing with consolidated financial statements and the funds statement.)

THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE

The upshot of this small meeting was a decision to press forward with plans that would, in effect, run parallel to the efforts of the larger body (ICCAP), and perhaps move more swiftly because of a lesser number of participants and, therefore, easier decision making. As a result, representatives of these three countries met again, in London in December 1972, and laid the foundations for the establishment of an *International Accounting Standards Committee* (IASC). They drafted a proposed constitution for such a committee, which they said should be established in recognition of "the urgent need to

formulate, publish and obtain general acceptance of basic international standards in accounting, auditing and financial reporting."

In establishing the case for such a body, the representatives who met in London observed that the accounting profession is "under stress" from various quarters of society to "face up to the need to rationalise and harmonise accounting practices."

Those at the meeting recognized that accountants need to move on an international basis to meet and resolve problems that are international in scope, before other agencies come to the conclusion that accountancy bodies jointly are incapable of resolving them and take the matter into their own hands.

The London group then sent copies of its draft constitution and other documentation to the professional accounting bodies of six other countries (Australia, France, Germany, Japan, Mexico and the Netherlands), inviting them to a meeting in London in March. (All of these attended except for the Japanese, who nonetheless asked to be kept informed on progress.) At the March meeting some changes were made in the proposed constitution, which the group agreed would be formally voted upon at the next meeting, to be held in June.

Several interesting points emerged in the discussions held in March. For one thing, the participants wisely distinguished between the standards we might *like* to be universally applicable and those that we are *likely to achieve* through the "art of the possible." They recognized in their report that the standards being developed in the countries represented at the meeting are so sophisticated that they are not necessarily appropriate for "all the countries of the world" at this time and that, accordingly, "their acceptance and implementation on a worldwide basis would be difficult." With this in mind, the group defined its objective more closely as being the development of standards "capable of rapid and worldwide acceptance." Such standards, they said, "would contribute to a significant improvement in the quality and comparability of corporate disclosure."

There was considerable discussion on the carrying vote that would be required to promulgate standards. The first draft of the constitution had specified a two-thirds vote, but the committee changed this to three-fourths, arguing that "if more than two members were unable to support a standard it would be clear that there existed a substantial measure of doubt about it and it would be unwise to proceed."

A knotty problem to be considered was one that is often the most difficult aspect of this type of effort: that of enforcement, how to make sure that the standards promulgated get put into effect.

The group pointed out in its report, first, that if the participating professional bodies did not take steps to promote acceptance of the standards, "the project would fail and the profession would not have discharged its duties to the public." So they said that what was needed was "a commitment by all participating bodies to support the standards enunciated by the Committee and to use their best endeavors to secure acceptance and observance of these standards."

At the same time, however, they recognized that the accountants could not *require* that the accounts or financial statements of companies in the various countries comply with the standards, since such accounts (or financial statements) in many instances were the responsibility of the directors or were governed by statute or by regulatory authority. Accountants could, however, bring their influence to bear on governmental and other bodies "... to secure observance of the standards in the accounts of companies including, if this was appropriate, a change in the law to achieve this."

Moreover, in some countries professional bodies were already requiring their members, when acting as auditors, to report if the financial statements they were examining did not comply with the accounting standards of their own countries. The committee thought that in such cases the requirement might be extended to include international standards. In other countries, however, it might not be possible, for various reasons, to go this far in enforcing compliance.

As a temporary kind of compromise, therefore, the committee decided to revise the wording in its draft constitution so that the professional bodies signing it would be required to use their *best efforts* to secure "general acceptance and observance" of the standards and that "as soon as it was practicable to do so" each member would ensure that disciplinary action would be taken against its members who failed to report noncompliance.

I am going into this much detail about the developments that brought the IASC into being because their approach and what they accomplished in this brief time are truly an impressive story. In a few minutes I shall go on to explain to you how what was happening in London in December and March is related to what happened in Düsseldorf in April at the meeting of ICCAP. But before doing that, I want to tell you what the London group saw as the priority topics to be attacked in setting up standards within the next few years.

They saw two subjects on which standards should be issued within a year of the formal establishment of IASC: disclosure of accounting policies, including the valuation of assets, and the minimum information to be included in published accounts. Then they said that standards should be formulated

"as soon as possible" on consolidated accounts, and minimum audit requirements and the form and purpose of audit reports.

After these tasks were completed, the future program should include depreciation of fixed assets, valuation of inventory and work in progress, and prohibition of reserve accounting together with a requirement for the "full disclosure of movement to and from reserves."

So, as you see, while the IASC was mapping out a broad and ambitious program, it nonetheless was being highly realistic in selecting manageable segments of its total program that it could attack in an orderly fashion. Here, again (I think), the participants were showing both good common sense and statesmanship.

RELATIONSHIP BETWEEN IASC AND ICCAP

As I mentioned a moment ago, I want to show you how the emergence of the IASC idea relates to the growing role of ICCAP and what has been going on in that group. I should mention first, however, three points that you will need to have in mind. First, the membership of the March 1973 meeting of IASC was almost the same as the membership of ICCAP at that time, the latter having two additional members (India and the Philippines). Japan did not officially attend the March meeting of IASC in London, and she was not then a member of ICCAP. But she is now, since she was admitted in April. So the only difference in membership of the two bodies now is that India and the Philippines are only on ICCAP.

Second, whereas the founding bodies that have set IASC in motion deliberately conceive it to be, for some period of time at least, a tightly knit organization, perhaps not much larger than it is now, ICCAP is susceptible to considerable expansion.

Third, those who met in London in December and March saw quite clearly that it would be necessary to work out a reasonably precise relationship between IASC and ICCAP. There were two broad points of view as to what it should be. Some thought the IASC should be a committee of ICCAP, "under its jurisdiction and responsible to it, but not subject to interference from ICCAP in its technical programme or to approval of standards by ICCAP before publication." Those who held this point of view felt that to create IASC as a separate body would be to fail to make use of ICCAP as a focal point for the evolution of closer cooperation among the sixty-five countries that take part in international congresses. They felt we would run the risk of being charged with "proliferating uncoordinated international agencies" and

“prejudicing the evolution of ICCAP into an effective international organization for the accountancy profession.”

Others, however, feeling that IASC should be a self-governing body operating entirely independently of ICCAP, argued that the latter had “no mandate under its terms of reference to assume responsibility for IASC.” They held that its primary purpose, as presently constituted, was to organize the next International Congress, recommend to that Congress what it (ICCAP) should have as its role, and review progress in the development of regional organizations. They admitted, of course, that ICCAP could be reorganized after the Düsseldorf meeting to give it a broader charter.

In general, the standards group agreed that “whatever relationship with ICCAP might ultimately be agreed, it would be necessary for the work of IASC to have a large measure of independence.” Moreover, they said that the formal creation of IASC should not be held in abeyance until such time as ICCAP might have a wider membership and an expanded role and functions. IASC, they felt, should proceed with its work without waiting for ICCAP’s role to be clarified. *However, both groups have subsequently agreed that the IASC should be a “part of” ICCAP (although autonomous in its function), so that this question has been satisfactorily resolved.*

THE INTERNATIONAL COORDINATION COMMITTEE FOR THE ACCOUNTANCY PROFESSION

At the Düsseldorf meeting there was general agreement that the role of ICCAP should be expanded, but there was a very considerable range of views as to how and how much, and how fast, and what the membership should be. Obviously the matter needed intensive study, and so we resolved to form a working party (or subcommittee) to “reconsider the role and structure of ICCAP.” It was directed to report its conclusions and recommendations to ICCAP at the next meeting, which was to be held in Mexico City in late October. Its report was to deal with:

- the objectives to be achieved and their order of priority,
- the organizational structure which would best serve the achievement of these objectives, and
- the determination of a reasonable timetable for implementing its proposals.

To make a long story short, the subcommittee took its task to heart and, despite the difficulties of time and distance, completed and submitted its report at the ICCAP meeting in Mexico City on October 25 and 26. The report was unanimously adopted.

In brief, the report, which now becomes the major program of ICCAP, states that the long-term objective of ICCAP "should be the development of a coordinated worldwide accounting profession with uniform standards." ICCAP accepts the responsibility of leadership toward achievement of this objective, and has formed a number of committees to formulate the necessary plans for a program and an organization toward that goal. Foremost among them is one that is charged with the responsibility for considering and recommending to the full committee a structure for a proposed international organization of accounting bodies, taking into account the full gamut—constitution, membership, financing, organization and functions.

ICCAP has set a timetable for itself whereby the proposed international organization would be ready to go by the time of the next International Congress in Munich in 1977. That is, ICCAP is committed to completing its task by then. However, assuming that it can do so, and we believe that it can, approval will be required from the bodies that will participate in the new organization before it can become a viable entity.

It is a large undertaking, and there are many difficulties ahead including, I am sure, some that we have not foreseen. Yet it is a highly significant task, and there is a unanimity of purpose on the committee that we must proceed with it as expeditiously as possible.

Participation in an international body such as this is a fascinating experience—although it can also be very frustrating at times. It is, I suppose, a bit like a little United Nations. Our first meeting was quite confusing to me—not because of language problems, since our meetings (fortunately) are conducted in English—but because I found it difficult to figure out with any degree of consistency who was really for or against what *and why*. Now that we have gotten to know one another much better, our meetings are considerably more frank and open and far more productive.

There is, of course, in this experience, considerable opportunity for travel—far more than I need or relish. Already this year I have attended meetings in Düsseldorf, Paris and Mexico City, and I missed one or two in which I could have participated. The United States is to be the host for the next meeting of ICCAP, which is tentatively scheduled for June 1974. To demonstrate to you the good judgment of the members, they unanimously opted for San Francisco as the site.

CONCLUSION

I would not want to leave you with the impression that there is a smooth road ahead for an effective, authoritative and highly productive international

body. There are many thorny issues to be resolved (membership, voting, structure, etc.), and so the steps are likely to be more hesitant and more circuitous and the results harder to attain than most of us would like.

But I *would* want to leave you with the impression that there appears to be a greater common sense of the urgency of the objectives and of the need for an international organization than ever before. And perhaps more has been accomplished in the months since Sydney than in all the years before—in the setting up of IASC, in recognizing the potential of ICCAP and in embarking on a path which, it is hoped, will help to realize that potential.

We now have two fairly broadly representative international entities *in being* which *show* good promise for action, progress and results. At the very least, this is the best position in which we have ever been to move on a coordinated front on international matters. So, these organizations, and the cause they represent, merit our interest and our support. •